Fleet Vehicles Agency

An Agency of Manitoba Transportation and Government Services

2000/2001 ANNUAL REPORT

REPORT FOR THE PERIOD FROM APRIL 1, 2000 TO MARCH 31, 2001

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Fleet Vehicles Agency is
an Agency of Manitoba Government Services

MINISTER OF TRANSPORTATION
AND GOVERNMENT SERVICES

Room 235
Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

July 13, 2001

The Honourable Peter M. Liba
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, Manitoba R3C 0V8

May It Please Your Honour:

It is my privilege and pleasure to present the Annual Report of Fleet Vehicles Agency (*FLEET*) for the year ended March 31, 2001.

This Report marks the completion of *FLEET*'s 67th year of operations within the provincial framework. It has been known by several names during that period, including the Fleet Vehicles Branch, the Central Provincial Garage and, since April 1, 1992, Fleet Vehicles Agency.

As a Special Operating Agency, *FLEET* has become a model for other agencies within the province and for alternative service delivery across the country. May it continue to perform in line with the expectations of all of its stakeholders.

Respectfully submitted,

Steve Ashton
Minister Responsible for
Fleet Vehicles Agency

Manitoba

Deputy Minister of
Government Services

332 Legislative Building
Winnipeg MB R3C 0V8

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July 13, 2001

The Honourable Steve Ashton
Minister Responsible for Fleet Vehicles Agency
Department of Transportation and Government Services
Room 203, Legislative Building
Winnipeg, Manitoba R3C 0V8

Dear Mr. Minister:

I am pleased to submit for your review and consideration the Annual Report of Fleet Vehicles Agency (*FLEET*) for the year ended March 31, 2001.

From the several initiatives in 2000/01 for which *FLEET* management and staff should be commended, I would like to comment on the following two:

(1) *FLEET* successfully contracted in October 2000 to provide leasing and vehicle management services to the Department of Health's ambulance program. Over the next six years, *FLEET* will purchase approximately 160 new ambulances for leasing to Regional Health Authorities throughout Manitoba. Of the 60 ambulances scheduled for 2001/02, 20 have been received to date and distributed to the RHAs.

(2) *FLEET* is already working towards the improvement of air quality and curtailment of pollutant vehicle emissions, a part of the Government's Sustainable Development program. During 2000/01, two Toyota Prius hybrid gasoline-electric vehicles were leased to Conservation (Energy and Mines) for testing in their programs, and 12 Chrysler E-85 vans (which run on gasoline, or on a combination of gasoline and up to 85% ethanol) were purchased for lease within Transportation and Government Services.

The Agency's Advisory Board is extremely sensitive to the challenges that continue to face *FLEET*'s management and staff, and extends its appreciation to them for making 2000/01 an interesting and successful year.

Yours very truly,

Gerry Berezuk
A/Deputy Minister and Chairperson of the
Fleet Vehicles Agency Advisory Board

Chief Operating Officer's Message

To the Many Stakeholders of Fleet Vehicles Agency

Another successful year has come and gone at *FLEET*. Part of our success comes from "worrying" what each new year might bring. The *FLEET* management and staff are constantly seeking to improve the many services that we provide, attempting to assist our clients in meeting their various program needs, and doing their absolute best to add to each year's "bottom line."

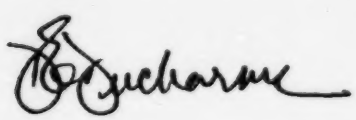
As bottom lines go, the $2,741 one for 2000/01 is the highest single year's net earnings recorded to date for *FLEET*, although that number should probably be put into perspective. It includes $395 in the form of a gain from an actuarial revaluation of our pension plan obligations. But, even with that gain's exclusion, the remaining $2,346 in net earnings ranks ahead of all but one other year in *FLEET*'s reported net earnings history.

Perhaps even more impressive, at least to me, is the 27.3 days sales in receivables ratio as of March 31, 2001. I had praise for the *FLEET* management and staff for last year's 39.6 days. But I am simply overwhelmed by this year's number.

Operationally, the contract awarded to us in October 2000 to purchase and manage approximately 160 ambulances for the Regional Health Authorities has to be the highlight of the year. After all, we spent at least two to three years "chasing those ambulances." It was a happy day for all of us at *FLEET* when the first group of six came rolling through our shop door in May 2001.

Keys™, our new fleet management software package, two years in the making, was further enhanced by our IT staff during 2000/01. There is no doubt that of all of the areas of possible commonality of purpose explored during the year with the Mechanical Equipment Services branch of Transportation, Keys™ attracted the most attention and hours. MES management are currently assessing their needs and exploring what other avenues there might be to manage their equipment. We remain confident that Keys™ , perhaps with modifications to meet MES's specific needs, is their answer.

In closing, I would be remiss if I did not once again express my appreciation to the management and staff at *FLEET*, and to our numerous clients, partners, and other stakeholders. The accomplishments in this Annual Report could not have been achieved without your combined efforts in working towards our common goals.



Dennis Ducharme
Chief Operating Officer

Profile and Direction of Fleet Vehicles Agency

Fleet Vehicles Agency (*FLEET*) has one of the larger single fleets of vehicles in Manitoba and, as an agency within Manitoba Government Services, our main clients are the departments, agencies and crown corporations of the provincial government. As a supplier of complete vehicle management services, we are, however, exploring new market opportunities to provide our services to broader public sector organizations throughout the province.

The fleet currently consists of more than 2,600 vehicles including trucks (51%), vans (33%) and sedans (16%) operating from more than 600 locations throughout the province. Annual distance travelled by the fleet exceeds 50 million kilometres and annual fuel consumption exceeded eight million litres for the first time in 2000/01.

Our Mission Statement

"We are committed to provide our clients with a complete range of quality fleet management services to assist in the efficient delivery of public programs."

On at least an annual basis, the management at *FLEET* scrutinizes its Vision and Mission Statements to ensure that these two important statements reflect the current direction desired by our management, staff and major stakeholders. The most recent change from this self-examination process occurred to our vision statement in the fall of 2000, resulting in the accompanying current mission and vision statements.

FLEET's management and staff also annually formulate our operating goals and objectives, developing several guiding principles that we feel are important in the achievement of our continuing success. The critical success factors developed for 2000/01 and our results in addressing each factor's related goals and objectives are discussed in this Report in the section "Operating Objectives and Results."

As we at *FLEET* continue to work towards achieving our mission and vision, our actions and our working relationships will also be guided by, and reflect, the following important values:

- *Satisfy and exceed stakeholder expectations,*
- *Provide dependable and responsive service at competitive prices,*
- *Promote open communication and teamwork,*
- *Encourage individual learning, growth and achievement,*
- *Provide a safe work environment for all employees, and*
- *Eliminate or minimize risks to the environment.*

Our Vision Statement

"To provide complete vehicle and equipment management services to the broader public sector."

Our Products and Services

FLEET's employees provide complete fleet administration support and vehicle maintenance to our clients from a central Winnipeg administration office and full service repair facility. Approximately one-third of the fleet is serviced from the Winnipeg garage and the remainder is serviced by the Agency's private sector contacts throughout Manitoba, with *FLEET* ensuring high service standards to customers regardless of location.

FLEET provides a full range of quality fleet management services. Our main objective is to serve public-sector organizations, in the anticipation that the development of partnerships with other levels of government will lead to the most efficient use of resources and cost savings to each partner.

Vehicles currently available range from compact sedans and half ton trucks to full size vans. Client specifications determine the requirements for vehicles ordered and the flexible lease terms that are arranged. We also maintain a number of older vehicles for public sector organizations to rent at lower rates on a seasonal basis.

The average age of the fleet, excluding seasonal vehicles, is currently 3.2 years, which is greater than our private sector competitors but comparable to other public sector fleet operations. Our vehicle replacement program maximizes fleet discounts on vehicle purchases, with those discounts reflected through our low vehicle lease rates. Although the Agency can recommend optimal vehicle replacement, it is ultimately our clients' decisions when to replace their vehicles, and this is often affected by funding restrictions.

Costs arising from the acquisition and operation of a vehicle are charged to our customers through fixed and variable rate structures. Centralized payments of all vehicle operating and administrative costs, including repair and fuel bills, eliminate the administrative task for our customers and allow us to take advantage of discounts and volume rebates.

Our garage facility's qualified personnel provide regular servicing, repairs, parts and bodyshop maintenance. Our garage is certified with the Private Vehicle Inspection Program and the Commercial Inspections Program to inspect all vehicle types including medium and light trucks, school and transit buses, and air brake equipped vehicles. Our bodyshop is qualified by Manitoba Public Insurance as an accredited Autopac autobody facility.

Maintaining or Expanding Our Market

Over the past 67 years, *FLEET* has developed a range of products and services to meet the needs of provincial government clients. *FLEET*'s services fall into two main groups: Vehicle Services and Fleet Management Services. Taken together, these services constitute the Full Service package recommended by *FLEET*. Vehicle Services include leases, seasonal rentals, short-term (pool) rentals, and vehicle insurance and registration. Fleet Management Services cover a whole range of services including a *FLEET* credit card for fuel purchases, repair authorizations, a

preventive maintenance program, an invoice payment service, a taxable benefit program and a complete history of cost, maintenance and distance for each vehicle.

Throughout 2000/01, our staff used the valuable information collected and stored by Keys™, our new Fleet Management Information System, to assist customers in analysing aspects of their vehicle costs and to provide detailed billing data tailored to each customer's specific needs.

Present provincial clients have the option of tendering their new vehicle requirements with *FLEET* and with private sector fleet management companies. Private sector bids may be accepted over *FLEET*'s bid only if the departments or agencies are able to demonstrate to Treasury Board that the provincial government would receive better value for its dollar if the department's or agency's fleet management needs were provided by an organization other than *FLEET*. To date, no other organization has been located that is able to provide such value.

A significant "shot in the arm" in the way of new business came to fruition in October 2000 when *FLEET* was awarded the contract to purchase and manage approximately 160 new ambulances for lease to the Regional Health Authorities throughout Manitoba over the next six years. Sixty ambulances are scheduled to be purchased and leased during 2001/02.

Although it remains *FLEET*'s intention to concentrate on further development within departments and agencies of the provincial government and to make further inroads with provincial crown corporations, our vision since 1992 has been to advance new market opportunities and services on a limited basis to the broader public sector within Manitoba. With the approval in March 2000 for *FLEET*'s access to Loan Act Authority to acquire vehicles for lease to these potential markets, the previous barrier to making serious inroads has been removed. Our current objective is to approach specific target markets and prospective new clients who expressed interest in the past, and to ready, promote and position ourselves to commence the process of tapping into these markets.

Structure for Operations

Historical Perspective

Fleet Vehicles Agency was established as a branch of the Manitoba Provincial Government in 1934 to provide centralized fleet management and related services to provincial departments, agencies and crown corporations. It was established to maximize efficiencies in vehicle acquisitions, maintenance and use, and to lower overall vehicle operating costs.

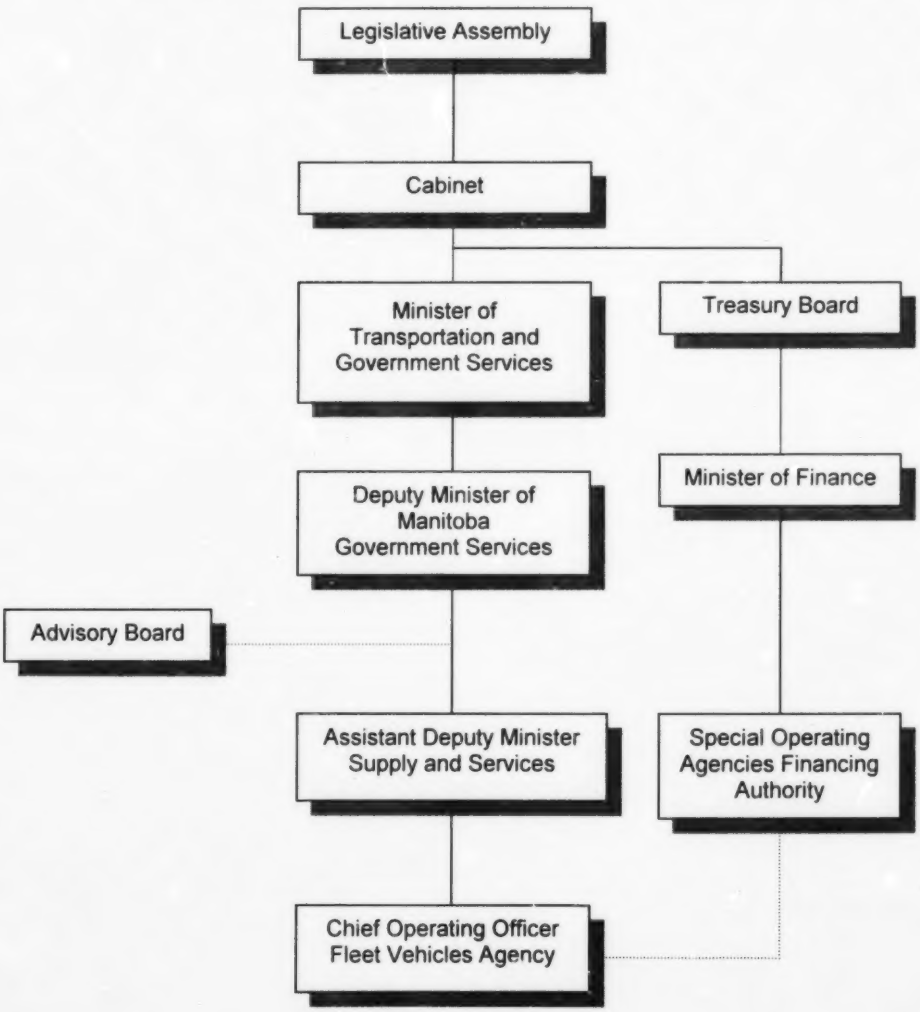
On April 1, 1992, the branch was approved as a Special Operating Agency (SOA), the first such agency to be created in Manitoba and at the provincial level in Canada. Although it remains *FLEET*'s intention to concentrate on further development within departments and agencies of the provincial government and to make further inroads with provincial crown corporations, our vision since 1992 has been to advance new market opportunities and services on a limited basis to federal and municipal governments in Manitoba.

Accountability Structure

As an organization within Manitoba Government Services, *FLEET* reports directly to the Assistant Deputy Minister–Supply and Services, and is held accountable to the Deputy Minister of Government Services and to the Minister of Transportation and Government Services for operational and financial performance.

The Agency operates outside of the Consolidated Fund under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency's assets, provides financing for operations, and is responsible for its liabilities.

Governance and accountability are substantiated by *FLEET*'s compliance with its Operating Charter, Transfer Agreement, Management Agreement, applicable General Manual of Administration policies, and by The Special Operating Agencies Financing Authority Act. Financial and operational information and requirements are disseminated to and from Treasury Board through a SOA Coordinator at Treasury Board Secretariat. The Accountability Structure Chart presented below outlines the current structure.



Advisory Board

The Advisory Board for Fleet Vehicles Agency meets as required to review the Agency's financial and operating reports, the draft Business Plan and any proposed changes to the Agency Charter. The Board's members offer advice and direction on short and long term strategic planning, reporting and management issues of concern to us and to our stakeholders in both the private and public sectors.

Members of the *FLEET* Advisory Board as of March 31, 2001, are listed below.

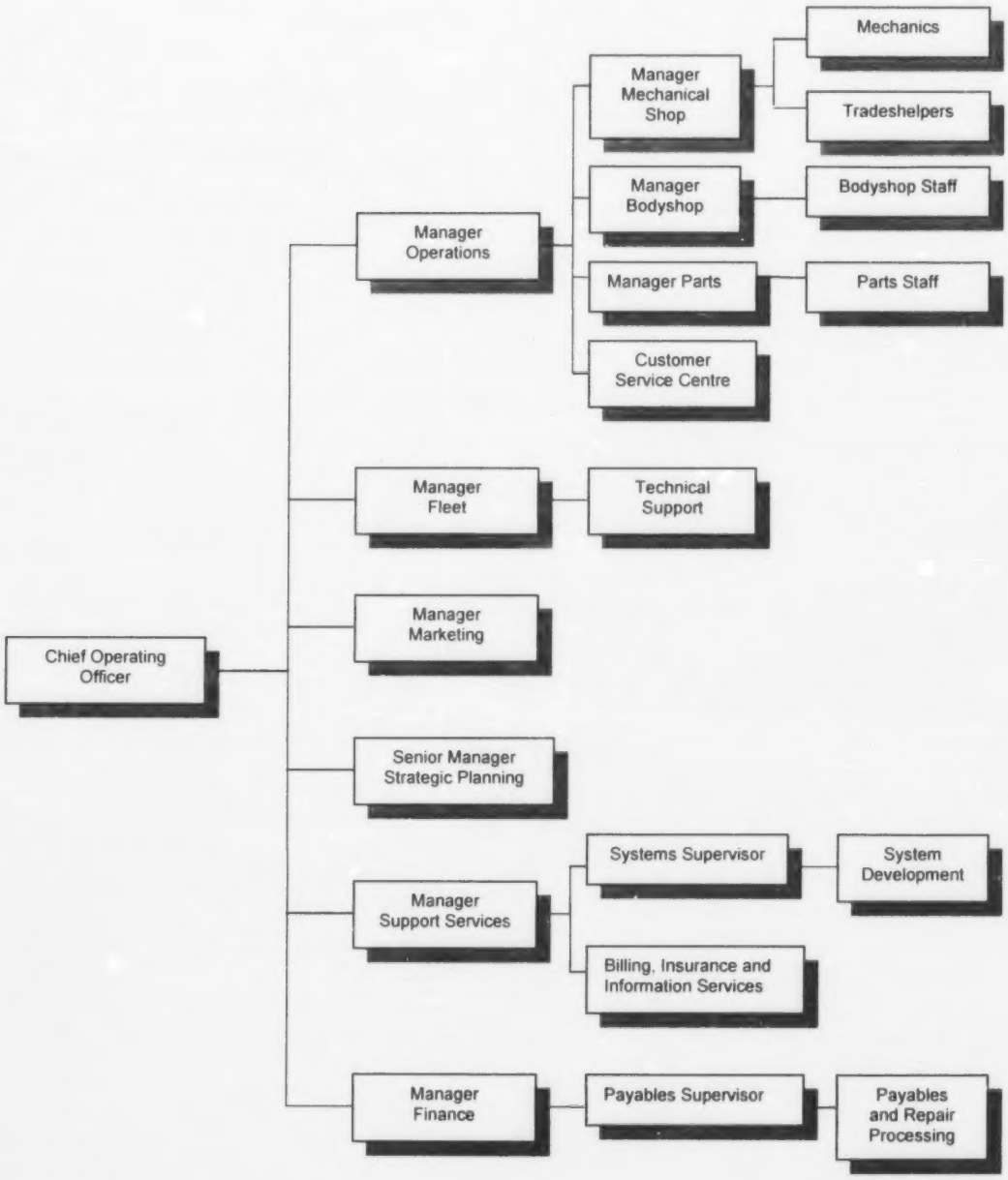
CHAIR	***Gerry Berezuk*** *A Deputy Minister* Manitoba Government Services	
MEMBERS		
Private Sector Representatives	***Norm Fiske*** *Partner* Sill & Company	***Raymond West*** *Retired Chairman of the Board* A. E. McKenzie Co. Ltd.
Client Representatives	***John Hosang*** *Assistant Deputy Minister* Manitoba Transportation	***Al Macatavish*** *Retired Vice President* Transmissions and Distributions Manitoba Hydro
Ex Officio	***Tracey Danowski*** *A Assistant Deputy Minister* Manitoba Government Services	***Dennis Ducharme*** *Chief Operating Officer* Fleet Vehicles Agency
Staff Representative	***Derek Boutang*** *Systems Analyst* Fleet Vehicles Agency	

Organization Chart

FLEET's current staff complement has more than 250 years of combined experience in the provision of fleet management and related services. The Agency employs qualified, certified and licensed shop personnel to offer top of the line technical service, and a team of qualified, service-oriented administrative staff to meet the needs of our clients.

When *FLEET* became a SOA in 1992, we were allocated 48 approved staff positions. As of March 31, 2001, we operated with 48 employees designated as "regular" in those positions. In addition, at that same date, we gainfully employed two others who were designated as "term." Those numbers are representative of our total staff complement during the 2000/01 year; at any point in time, it approximated 50.

Our Organization Chart below depicts *FLEET*'s current structure for operations.



Cost Savings for Government and Clients

In the nine years that *FLEET* has been a Special Operating Agency (SOA), we have worked hard to gain the confidence of our various stakeholders and to provide cost-effective, quality service to our clients. Cost savings to the provincial government have resulted annually through overall fleet downsizing and through lower vehicle leasing rates to client departments, agencies and crown corporations.

Fleet Downsizing

As of March 31, 1991, one year before Manitoba commenced the SOA initiative, the fleet numbered 2,746 vehicles. Primarily as a result of discussions with departments and agencies about vehicle utilization, a fleet reduction program was instituted that saw the fleet reduced to 2,212 vehicles four years later. This reduction of 534 vehicles by March 31, 1995, represents a decrease of 19.4% compared to the fleet size as of March 31, 1991. The growth in recent years to 2,609 vehicles as of March 31, 2001, relates primarily to the obtaining of 218 "dry lease" units that were previously owned and managed by the Department of Highways (now Transportation), and to the current trend at *FLEET* to hold back units from disposal for a year or two wherever possible for our growing seasonal business with departmental clients and with the City of Winnipeg.

Fewer permanently assigned vehicles in the fleet results in annual cost savings to the Province of approximately $2.5 million in vehicle replacement cost and approximately $2.5 million in operating costs, or $5 million in total.

Lower Vehicle Leasing Rates

Our clients have had the option to tender for the various services offered by *FLEET* for the past five years. As a part of this process, during the first two years that we were an optional service, two departments chose to tender for their vehicle replacements and related services. The management at *FLEET* were able to analyse and compare the tenders received and to determine the potential costs to departments and agencies from each supplier, including *FLEET*. Based on this process, as applied to a cross-section sample of the vehicles that were tendered, it was determined that *FLEET*'s rates for vehicle leasing and full fleet management services for that sample of vehicles were approximately 5 to 6% lower than its competitors.

Based on a study completed in March 2000, the feeling at *FLEET* is that the gap between our rates and those in the private sector has narrowed in the past couple of years. We are continuing to monitor the situation as best we can, and are taking steps to ensure that our cost minimization mandate remains at the forefront of our operating philosophy.

Operating Objectives and Results

Each year, the management and staff at *FLEET* identify key objectives in the preparation of our annual Business Plan that we consider important to the continuing success of the Agency. The major goals and objectives that were established and highlighted in the finalization of our 2000/01 Plan in May 2000 are presented below. These goals and objectives were monitored by management on a monthly basis during 2000/01 through a detailed step-by-step performance framework that we call The *FLEET* Plan. Highlights of our progress in meeting the performance targets that were included as a part of our 2000/01 Business Plan are provided below in italics.

Enhance the Value and Quality of our Service to Meet Stakeholders' Expectations

In the nine years that *FLEET* has been a SOA, our various stakeholders have come to expect a high level of service and results from the Agency, its management and staff. Operating as an optional service since April 1996 has made us realize that to retain or expand our current client base, we must ensure that the provided level of service continues, or is even enhanced. All employees expect that *FLEET* will continue to provide interesting opportunities for continued employment and reasonable rates of remuneration. Other stakeholders more distantly removed have reviewed our annual operating results and statistics, and have encouraged us to continue to operate positively and to improve our performance even further. We at *FLEET* have responded to this challenge in the past and look forward to attempting to meet the expectations of our various stakeholders in the future.

Goal **Retain existing clients through efficiencies and increased customer satisfaction.**

Objective Be the successful bidder on 100% of current client tenders issued for vehicle leasing and management for the 2000/01 business year. *As of June 26, 2001, we have ordered 366 model year 2001 new and replacement vehicles. No clients chose to go to tender for their model year 2001 new and replacement vehicles.*

Objective Increase the number of seasonal vehicles available to a minimum of 600 for the 2000/01 seasonal program. *There were 530 units available for the 2000/01 seasonal program. We have decreased our target objective for 2001/02 to between 500 and 525.*

Objective Partner with the Department of Conservation to acquire a Hybrid Gasoline-Electric vehicle by December 31, 2000. *On September 13, 2000, we received two green Toyota Prius vehicles. These vehicles are hybrid gasoline-electric vehicles, and are now leased to Conservation (Energy and Mines) for use in their programs.*

Objective Coordinate efforts of managers and staff to attempt to retain 100% of *FLEET*'s current customers. *Coordination efforts by our Chief Operating Officer and managers were successful in retaining all clients.*

Goal **Maximize vehicle repair facility efficiencies to ensure high quality service to provincial and broader public sector clients operating within the vicinity of Winnipeg.**

Objective Maintain repair services that are cost competitive through a maximum shop door rate below $50.00 per hour. *The shop door rate on work orders during the first seven months of 2000/01 was $48.95 in the shop and $46.49 in the bodyshop. As of November 1, 2000, the rate for both shop and bodyshop was increased to $51.50 per hour, with tradeshelpers increased from $43.00 to $45.25 per hour.*

Objective Ensure high quality service work by maintaining a maximum work order comeback rate below 1.0%. *The comeback rate in each of the four quarters during 2000/01 was significantly below 1%.*

Objective Maintain a maximum parts markup of 16% for 2000/01. *Parts were charged into work orders during 2000/01 at a markup rate of 16%.*

Administer Assets and Resources in a Fiscally Responsible Manner

The management and staff at *FLEET* have been entrusted with considerable assets and resources to embark upon our plans and procedures to fulfill the main thrust of our mission statement. It is only fitting that those assets and resources be safeguarded and enhanced, and that they be applied to optimize the efficiencies of the various *FLEET* programs. It is one of the ways in which *FLEET* can perform some of the objectives of its SOA mandate.

Goal **Manage *FLEET*'s use of Loan Act Authority to finance the purchase of new and replacement vehicles.**

Objective Maintain *FLEET*'s draw down percentage relative to vehicle costs at a maximum rate of 60%. *On March 29, 2000, we drew down $3.4 million to assist in paying for vehicle additions during the fourth quarter of 1999/2000. On September 29, 2000, we drew down a further $1.4 million to replace funds earmarked for vehicle purchases but used for other purposes. A total of $4.8 million drawn down on approximately $8,175 in model year 2000 vehicle purchases (including 26 model year 2001 Fords purchased at 2000 prices, because of Ford's purchase order mix-up) is a draw down rate of 58.7%. On March 22, 2001, we drew down $4.25 million as an instalment towards the purchase of an estimated $8,797 in model year 2001 vehicles, with the final draw down instalment in abeyance until September 2001.*

Objective Achieve a maximum debt to equity ratio of 1.5 to 1 at March 31, 2001. *The debt to equity ratio as of March 31, 2001, was 1.34 to 1.*

Objective Maintain retained earnings at a minimum of $10 million through March 31, 2003. *Retained earnings (as restated) as of March 31, 2000, was $9,903. As of March 31, 2001 retained earnings increased to $10,644.*

Goal **Safeguard and maximize use of assets and resources.**

Objective Charge an administration fee starting April 1, 2000, to all clients that have been transitioned into the managed environment, but are not yet using

Fleet Vehicle Reporting. *A processing fee was implemented with the April 2000 variable billings for all applicable customers.*

Objective Identify suitable "off lease" vehicles for new market clients. *All off lease units through March 31, 2001, that are not currently a part of our seasonal program, were sold at auction or reassigned to existing customers.*

Objective Achieve minimum annual financial ratios of:

Return on total revenue: 8%. *Our return on total revenue for the year ended March 31, 2001 was 12.1%.*

Return on average assets: 5%. *Our return on average assets for the year ended March 31, 2001 was 8.3%.*

Return on average equity: 10%. *Our return on average equity for the year ended March 31, 2001 was 19.0%.*

Objective Improve cash position by decreasing days sales in receivables to 45 days by September 30, 2000. *We achieved a record-breaking 39.6 days as of March 31, 2000. As of our target date of September 30, 2000, we increased to 50.3 days, but reduced that number to another record-breaking 27.3 days as of March 31, 2001.*

Objective Review Operating Charter and delegated authorities by September 30, 2000, to determine amendments that may be required to ensure operating efficacy. *We determined that there are no immediate changes required to our Operating Charter, or to the Delegated Authorities Schedule as currently applied to all SOAs. We did, however, determine that some of our established exemptions and decision-making abilities have eroded over time, and it is our intention to review the business relationships that have developed to ensure they are in FLEET's best interests.*

Objective Review written agreements or establish new service agreements with Manitoba Government departments and agencies by September 30, 2000, to ensure that the arrangements are known and precise to all parties. *We reviewed our building lease agreement, and the written arrangements for the services of the Human Resources Officer we share with the other three Government Services SOAs. We determined that there are no other significant services with government departments or agencies that require clarification of arrangements and/or commitment to writing.*

Operate Efficient and Effective Management Information Systems

The Fleet Management Information System (FMIS) consists of two main components: the Great Plains Dynamics accounting package and Keys™, our vehicle and equipment management package. Both are fully integrated, and both are considered "out of scope" in *FLEET*'s operation within the provincial government's Desktop Initiative program. Other FMIS tools utilized for information storage and retrieval are "in scope" including Microsoft Access, Word, Excel, PowerPoint, and Outlook. *FLEET*'s computer specialists continually upgrade and enhance the

FMIS to improve shop and administration productivity and to provide meaningful information to our clients.

Goal **Implement a management information system that meets the needs of internal and external clients.**

Objective Incorporate the following custom applications in Keys by March 31, 2001:
FLEET Back Office
Work Order Invoicing
Credit Card
Enhanced Replacement System
Staff Attendance and Human Resources
TaxBen.
As of March 31, 2001, we have incorporated all of the stated custom applications into Keys™.

Advance New Market Opportunities

FLEET's main clients are the departments, agencies and crown corporations of the provincial government. They are key to our survival as a business and continue to present growth opportunities for us. Although they will continue to be of prime importance to us, our Business Plans for the past several years directed us to broaden our market focus to federal and municipal levels of government and to related funded agencies. *FLEET* services to the broader public sector were offered through 1999/2000 without access to provincial financing for vehicle acquisitions. We quickly learned that interest from targeted new markets is limited when financing is not part of the service package. The $1 million in special Loan Act Authority approved as a part of our 2000/01 Business Plan provides us with an opportunity to explore these prospective new markets.

Goal **Broaden the "traditional" provincial customer base.**

Objective Convert five department-owned vehicles to Fleet Management Services. *During the second quarter of 2000/01, we completed arrangements to manage the six ambulances owned by North Eastman Health Association (NEHA) and the six shuttle buses owned by Manitoba Lotteries Corporation. During the third quarter of 2000/01, we arranged to manage two vans and one ambulance for the RHA in Churchill.*

Objective Investigate repair facility opportunities by contacting 100% of the traditional provincial customer market clients in and around Winnipeg not currently using our facilities. *We have promoted the use of our repair facility in Customer Newsletters and taken various customer seminar participants on tours of our facilities. NEHA ambulances and Manitoba Lotteries shuttle buses are recent additions.*

Objective Establish a joint steering committee with Highways by June 30, 2000, to explore commonality of purpose and a possible cooperative venture between *FLEET* and the MES branch of Highways. *A Task Force comprised of two members from FLEET and two from MES was formed in April 2000. Additional staff as required attended several combined and breakout meetings in May and early June. A report identifying opportunities, possible strategies, and an approximate timeframe was prepared by the deadline date of June 14, 2000, and presented to the*

Steering Committee. A meeting with the Steering Committee was held in early July 2000. Further meetings of the Task Force and various subcommittees took place from July 2000 to February 2001 and continue to take place, primarily in connection with the possible adoption by MES of our Keys™ fleet management system to manage MES's vehicles and equipment.

Goal **Explore new market opportunities.**

Objective Increase the number of permanent assignments to crown corporations/non-client agencies by five units. *During the third quarter of 2000/01, we arranged for the lease of a new half ton 4x4 to Leaf Rapids Town Properties. We have other vehicle lease opportunities pending with Manitoba Lotteries Corporation and Selkirk Mental Health Centre.*

Objective Investigate repair facility opportunities by contacting 100% of prospective customers within the crown corporations/non-client agencies and federal/municipal markets in and around Winnipeg. *Invitations to visit our facilities on Customer Day (June 22) were sent to potential customers in the federal, municipal, crown corporation and agency markets. Representatives from the University of Manitoba and the Workers Compensation Board attended. Follow-up with each of these organizations has taken place. We also made a presentation at the Association of Manitoba Municipalities convention on November 28, and held a seminar in our offices for crown corporations, school divisions, and federal departments on December 7.*

Objective Explore federal/municipal market opportunities for full service leases and obtain up to 40 permanent assignments by March 31, 2003. *We have contacted Public Works and Government Services Canada, Association of Manitoba Municipalities (AMM), and Manitoba Association of School Business Officials (MASBO). We attended an AMM convention in November 2000 and a MASBO trade show in February 2001, and developed a partnership with Pupil Transport to offer dry leases for school buses to School Divisions in April 2001.*

Objective Explore federal/municipal market opportunities for used "off lease" vehicles, pending availability of vehicles. *In November 2000, we promoted the lease of overstocked pool units, and have successfully leased three to Winnipeg School Division No. 1 and one to the Manitoba Liquor Control Commission. In March 2001, we promoted the leasing of Premium Used Vehicles to RHAs, school divisions, agencies, municipalities, and federal departments.*

Foster an Agency that Informs and Prepares all Stakeholders

One of *FLEET*'s objectives is the projection of a professional and unified corporate image consistent with our values and identity. Although certainly important and a part of the overall process, this objective goes a long way beyond name and logo recognition. It means the development of policies and procedures that continue to prompt us in the direction we wish to go. And it means the development of a *FLEET* corporate image in line with our short and long range goals and objectives.

Goal **Ensure customers are aware of services and employees are aware of business objectives.**

Objective Ensure 100% of current customers in *FLEET*'s traditional markets associate *FLEET* as the "provider of fleet management services to the public sector." *Our advertisement is displayed on the inside back cover of the August 2000 Manitoba Government Telephone Directory to that effect.*

Objective Ensure 100% of employees are aware of *FLEET*'s goals and objectives by March 31, 2001. *The 2000/01 Business Plan major goals and objectives were distributed to all staff in June 2000 attached to their payroll remittance advices.*

Goal **Maximize success of new product or new service launches by *FLEET*.**

Objective Provide marketing support to internal departments as new products/services or changes to current services occur. *Marketing support was provided during the year to several internal FLEET departments including assistance with: the printing and distribution of a Vehicle Ordering Guide in April 2000; leasing seminars in May 2000; the development of new customer orientation sessions including those for Manitoba Lotteries (shuttle buses) and NEHA (ambulances). Marketing support has been provided throughout FLEET's discussions with the Regional Health Authorities in connection with the management of all rural ambulances within the province. Marketing support will also be provided in the promotion and acceptance of what is now termed KeysLink—the "black box" that will be attached to odometers of selected client vehicles to automatically report odometer readings back to our staff at FLEET.*

Foster an Agency that Informs, Prepares and Empowers Employees

FLEET received an approved staff complement of 48 positions on becoming a SOA in 1992, with term positions added as required for specific projects. The managers of each specific activity centre are professionally qualified and thoroughly experienced to manage their individual areas of responsibility. Of the approximately 50 employees currently at *FLEET*, the majority have been with the Agency for several years and is well versed in fleet management services.

Goal **Prepare a skilled workforce for the changing work environment.**

Objective Provide an average of a minimum of 10 hours of development training for all repair facility staff in 2000/01. *An average of a minimum of 10 hours of training was provided for all repair facility staff during 2000/01.*

Objective Ensure all *FLEET* managers and staff receive training identified from the yearly Performance Management program within 12 months of identification. *Managers and administrative staff either received or are scheduled to receive training identified from the Performance Management process. The six "Lunch & Learn" sessions and weekly Keys™ training sessions are examples of this type of training in action.*

Objective Improve awareness of training availability to all staff through bulletin boards, four newsletters and 10 staff meetings per year, and individual assessments. *Training availability was made known to FLEET staff by all means possible.*

Objective Hold Agency-wide workshop on orientation package with 100% of employees. *Three sessions (two on June 13 and one on June 27) were held to review the orientation package with employees. Essentially all FLEET employees attended one of the sessions. The two or three employees not in attendance were covered in one-on-one sessions over the summer months.*

Objective Ensure 100% of new employees receive orientation. *Employees that are new to FLEET are scheduled to receive orientation when they begin employment.*

Objective Ensure 100% of managers are trained regarding the orientation program and their role in it. *All FLEET managers have now been trained in connection with the orientation program and their role in it. The program has created positive feelings and vibrations towards FLEET by both new and current employees.*

Goal **Encourage *FLEET* managers and staff to perform in line with *FLEET* goals and objectives.**

Objective Evaluate and document the effectiveness of the Performance Management program by March 31, 2001. *Evaluation and documentation is now scheduled to take place by September 30, 2001.*

Goal **Work towards implementing a rewards strategy to encourage full and effective utilization of assets and resources.**

Objective Evaluate and modify the previously prepared rewards strategy to reinforce achievement of organizational goals by September 30, 2000. *In August and September 2000, the Performance Management Plan drafted in 1997/98 was reviewed to determine if it could be updated for re-issuance to the relatively new Compensation Committee of Treasury Board. The review suggested that the approach and the majority of the previous discussion is outdated.*

Objective Implement a rewards strategy for *FLEET* employees by March 31, 2001. *It is now our intention during 2001/02 to meet with Government Services Human Resource Officers to search out current government initiatives, to meet with and talk to other government personnel interested in rewards strategies, to review plans in other jurisdictions, and to develop an approach and material for a new report that might be presented as a part of our 2002/03 Business Plan.*

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Financial Performance

The following financial review and analysis compare the actual results for the year ended March 31, 2001, to the projections for the same period and to the actual results for the year ended March 31, 2000. The projected financial statements are those that were prepared in October 1999 as a part of *FLEET*'s 2000/2001 Business Plan. This review and analysis should be read in conjunction with *FLEET*'s audited financial statements for the year presented on pages 28 to 36.

All dollar amounts in the review and analysis are in thousands of dollars.

Operating Results

As summarized in Table 1, *FLEET* reported net earnings of $2,741 for the year ended March 31, 2001, compared to a projected $2,368 and an actual $2,175 (as restated) for the years ended March 31, 2001 and 2000 respectively. Although revenue increased by $1,607 for the 2000/01 year over that for 1999/2000, the majority of the increase was offset by an increase in operating expenses of $1,041. Vehicle operating expenses showed the largest increase, going up by $1,487 in 2000/01 compared to the preceding year, with that increase partially offset by a $445 decrease in administrative expenses.

Table 1
(In thousands of dollars)

	2001 Actual	2001 Projected	2001 Actual vs. 2001 Projected Increase/ (Decrease)	2000 Actual (as restated)	2001 Actual vs. 2000 Actual Increase/ (Decrease)
Vehicle leases	$ 20,349	$ 20,500	$ (151)	$ 18,987	$ 1,362
Gain on disposal of vehicles	727	225	502	522	205
Interest income	80	20	60	58	22
Other revenue	1,462	1,390	72	1,444	18
Total revenue	**22,618**	**22,135**	**483**	**21,011**	**1,607**
Salaries	1,925	1,920	5	1,900	25
Vehicle operating expenses	16,296	15,689	607	14,809	1,487
Administrative expenses	860	1,330	(470)	1,305	(445)
Community service	28	24	4	95	(67)
Interest expense	768	804	(36)	727	41
Total expenses	**19,877**	**19,767**	**110**	**18,836**	**1,041**
Net earnings	**$ 2,741**	**$ 2,368**	**$ 373**	**$ 2,175**	**$ 566**

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Actual lease revenues for the 2000/01 year were $1,362 higher than they were one year earlier, but $151 lower than projected. Slightly more than half of the increase in the yearly comparisons is attributable to a one cent per kilometre increase in our variable rates as of both September 1, 1999 and May 1, 2000. The remainder is due to a few more vehicles in the fleet, getting replacement vehicles in from the manufacturers and out to customers earlier than most years, and slightly higher monthly fixed lease rates on replacement vehicles because of the ever-increasing cost of those vehicles.

The gain on disposal of vehicles of $727 in 2000/01 is $502 more than projected and $205 more than reported in 1999/2000. There were 363 actual disposals during the year, compared to a projected 269. The average disposal proceeds during 2000/01 were only $3.8, considerably less than the $5.2 average obtained during 1999/2000. What this really means is that the disposals this year were primarily older vehicles that brought in on the average less disposal proceeds, but those proceeds compared to the depreciated value of the vehicles on our books contributed a much larger gain than we projected.

Actual interest income for 2000/01 includes the interest earned on the cash earmarked for the funding of our pension liability. The accompanying projections report the projected interest income as well, but instead of doing it separately as "Interest income," they net the income against the pension expense amount included in Human Resource Overhead.

Vehicle operating expenses in the 2000/01 year are $1,487 higher than they were during 1999/2000 and $607 higher than projected. Actual figures for 2000/01 exceed projected in two out of the four reported categories of amortization, fuel, insurance premiums, and repairs and maintenance (insurance premiums and repairs and maintenance being the exceptions). Actual figures for 2000/01 exceed actual figures for 1999/2000 in all four reported categories. The ever-increasing annual cost of replacement vehicles in recent years means ever-increasing amortization as vehicles are written off over their estimated useful lives. The fuel costs increase is a direct result of the five to six cents per litre price increase at the pumps during the second and third quarters of 1999/2000 and the additional four to five cents per litre during the fourth quarter of 1999/2000. The fuel price increase to *FLEET* resulted in a one cent per kilometre increase in the variable rates to our customers as of September 1, 1999, and a further one cent per kilometre increase as of May 1, 2000.

A revaluation to our pension obligations, completed in July 2000 (see note 5 to the financial statements), resulted in a $217 increase in our pension liability through March 31, 2000, with the increase offset by $67 in expense and $150 in a receivable from the Province of Manitoba. To correspond to SOAFA's financial statement presentation, the entire entry has now been retroactively recorded through the March 31, 2000, year-end financial statements.

Notes 5 and 6 to the financial statements also discuss the results of actuarial valuations on our pension and severance pay liabilities. The pension liability valuation resulted in an actuarial valuation gain of $395 that flows right through to *FLEET*'s bottom line in 2000/01. That gain accounts for the majority of the difference between actual administrative expenses for 2000/01 compared to both projected 2000/01 and actual 1999/2000 administrative expenses.

"Community service" is comprised of the cost of vehicles and services that we donate under ministerial direction to charitable organizations and other community organizations. The higher amount in 1999/2000 includes a part (from April 1 to August 31, 1999) of the costs absorbed by *FLEET* on the 29 vehicles made available to the Pan Am Games.

The *FLEET* Facts section on pages 37 to 41 is more than just interesting statistics; it summarizes information and calculations used by the managers at *FLEET* to investigate differences and control our operations. Several numbers require comment:

- The 51,574 total kilometres driven by the fleet during 2000/01 are less than the kilometres driven last year and less than projected. Because of increasing variable rates, this might mean that departments are instructing their drivers to cut back where possible, or it might mean that drivers are cutting back on their own personal kilometres to reduce their taxable benefits incurred.

- The average lease rate per kilometre primarily includes the fixed and variable billing amounts invoiced monthly by *FLEET* divided by the number of kilometres driven. The calculation shows a significant jump to $0.3946 for 2000/01 to cover increased costs compared to $0.3574 in 1999/2000.

- Fuel consumption has increased to 8,352 thousand litres during 2000/01, a significant increase over 1999/2000, especially when one considers that the fleet drove fewer kilometres in the current year than it did one year ago. This is the area in *FLEET* Facts that currently concerns the managers at *FLEET* the most, and the one on which they are focusing their collective eyes.

- The price for fuel during 2000/01 averaged out to 62.4 cents per litre compared to 57.4 cents for 1999/2000, even after the discounts that *FLEET* is able to obtain. This increased cost and the related variable rate increases are the prime reasons for the increase in the average lease rate per kilometre indicated above.

The managers will continue to regularly monitor these statistics, to invoke rate and other changes as soon as they are required, to ensure that *FLEET* continues to perform up to the expectations of all stakeholders.

Financial Position

The results of our continued efforts to speed up billings and collections brought record-breaking results again in 2000/01, breaking the previous record established at the end of 1999/2000. Our trade receivables as of March 31, 2001, were only $1,588, compared to $2,153 as of March 31, 2000—a decrease of $565. When each of those positions is compared to the $2,925 as of March 31, 1999, the effort put forth by our staff is obvious.

In terms of our days sales in receivables ratio, the calculated 27.3 days that resulted at the 2001 year-end smashed the 39.6 days record established at March 31, 2000. There will be some slippage as we move into our busiest time of the year (the spring and summer months), but our goal of having no more than 45 days sales in receivables at the end of each quarter during 2001/02 certainly appears to be within our grasp.

As was the case at March 31, 2000, we delayed the payment of our March 31, 2001, $500 quarterly instalment in revenue sharing because of our significant working capital payable position at year-end. It is anticipated that the delayed amount will be paid towards the end of the

first quarter or early in the second quarter of 2001/02, once our cash position returns again to the asset side of our balance sheet.

The fleet size totals 2,609 units as of March 31, 2001, compared to a fleet of 2,589 as of March 31, 2000. We received 383 vehicles during the year (with 318 arriving during the fourth quarter) and disposed of 363. New and replacement model year 2001 vehicles from the manufacturers arrived at *FLEET* much earlier in 2000/01 than they did the year before, resulting in a larger number of fiscal year additions than we projected. The majority of the dispositions were seasonal vehicles that are replaced by off lease vehicles, as new vehicle replacements are received at *FLEET*.

Table 2 depicts the breakdown of our fleet as of March 31 each year for the past six years. The apparent increase in assigned, and decrease in seasonal, units in the 2001 column is an anomaly of sorts; at the March 31 balance sheet date, several vehicles coming off lease or scheduled to come off lease, had yet to be moved over from the assigned to seasonal designation. Seasonal units actually available to our customers in the summer and fall of 2001 should meet our 2001/02 Business Plan objective of between 500 and 525.

Table 2

Categories of vehicles	1996	1997	1998	1999	2000	2001
Assigned, full maintenance	1,652	1,532	1,557	1,627	1,624	1,845
Assigned, dry leases	79	131	157	176	217	218
Seasonals	456	443	575	548	535	405
Pool	101	105	105	97	97	93
Awaiting reassignment	19	15	8	15	31	28
Awaiting disposal	100	91	88	10	85	20
Total number of vehicles in the fleet	**2,407**	**2,317**	**2,490**	**2,473**	**2,589**	**2,609**

In addition to the categories listed above, as of March 31, 2001, we also had 48 vehicles not owned by us for which we provide full fleet management services.

On March 29, 2000, *FLEET* drew down $3,400 of its approved $4,800 in available Loan Act Authority towards the payment of model year 2000 vehicle acquisitions in the fourth quarter of 1999/00 and the first quarter of 2000/01. Following one of our established policies, we delayed drawing down the remaining $1,400 until September 29, 2000, and used it at that point to replace funds from the first quarter of the year that were originally earmarked for vehicle purchases but used for other purposes. On March 22, 2001, *FLEET* drew down $4,250 of its approved $6,300 in available Loan Act Authority ($5,300 regular and $1,000 special) as an instalment towards the payment of model year 2001 vehicle acquisitions.

Our working capital payable position as of March 31, 2001, amounts to $3,562, compared to a projected position of $2,933 at that date, and an actual position of $2,160 as of March 31, 2000. The position has deteriorated in spite of the efforts put forth by our staff to bring our receivables balance in as low as possible at year-end. Had receivables been as high at March 31, 2001, as they were at March 31, 2000 (the latter being the previous record-breaking performance through that date for our days sales in receivables ratio), we would have exceeded our permitted working capital payable limit of $4,000.

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At the same time that our working capital payable position continues to climb, so does our outstanding Loan Act Authority balance. The total of current and long term portions of that debt amounts to $13,259 as of March 31, 2001, compared to $12,306 as of March 31, 2000.

Ratio Analysis

Table 3

Ratio	March 31			
	Projected	Actual		
	2001	**2001**	**2000** (as restated)	1999
Return on total revenue	10.7%	**12.1%**	10.3%	11.6%
Return on average assets	7.1%	**8.3%**	7.0%	7.7%
Return on average equity	16.6%	**19.0%**	15.6%	16.4%
Debt to equity	1.35 to 1	**1.34 to 1**	1.26 to 1	1.19 to 1
Current ratio	0.48 to 1	**0.40 to 1**	0.41 to 1	0.65 to 1
Days sales in receivables	45.3 days	**27.3 days**	39.6 days	58.5 days

The three calculated rates of return in Table 3 are all in excess of our projections and also all in excess of the rates achieved last year. The calculations are, of course, significantly influenced by the $395 actuarial gain on our pension liability; without it in the equation, the calculated rates of return would all roughly be the same as our projections and roughly the same as those achieved last year.

Even with $2,000 in revenue sharing payments to the Consolidated Fund in each of the current and two preceding years, our debt to equity ratio as of March 31, 2001, continues to reflect a reasonably strong financial position. When *FLEET* became a SOA in 1992, we assumed long term start-up debt of $8,235 and contributed equity of $4,818—a 2 to 1 debt to equity ratio. Although our debt to equity ratio continues to climb from year to year as we incur more and more debt, the 1.34 to 1 position as of March 31, 2001, is not an untenable position. Current projections indicate that *FLEET* will become much more highly leveraged in the next few years than it has been during its first nine years as a SOA.

The one ratio that sticks out above all others is the calculated days sales in receivables. The 27.3 days achieved as of March 31, 2001, has already been commented on in the Financial Position section above, but it should be mentioned that this record-breaking performance will be hard to surpass in future quarter-end and year-end reports—but then that's what we also said last year. It will be interesting as each future quarter passes to see how low this ratio can actually go.

FLEET's current ratio continues to portray our major operating conundrum—the "asset rich but cash poor" problem—that we have experienced now for several years. The textbook desired position for a current ratio is often suggested as 2 to 1. *FLEET*'s ratio will probably never reach the suggested textbook position because the current portion of our long term debt is paid from cash generated by future operations, not from current assets. At no time during the 2000/01 year, however, did the ratio even approach 1.00 to 1 (where our current assets at least equal our current

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liabilities), a position that we used to approach or reach during those periods when we were in a positive cash position. With those times becoming less and less frequent during each fiscal year as our borrowings continue to rise, the days of 1.00 to 1 may be gone forever.

Financial Assessment to Date and for the Future

If success is measured in terms of financial achievement, *FLEET* has enjoyed considerable success during its nine years as a Special Operating Agency. We have had "bottom line" operating results that total $16,644 during that period, or average annual net earnings over nine years of $1,849. If just the past five years are considered, our average annual net earnings become $2,267, with net earnings exceeding 10% of annual revenues in each of those years.

Our balance sheet has not shone quite as brightly, although it too has had its moments. We paid off our start-up debt in just over five years, have significantly reduced the number of days sales held in receivables, and have financed a significant portion of the continuously-increasing net book value of our vehicles out of operations.

Table 4 traces our debt position from inception, ignoring the $1,082 pension-related funds in short term investments as of March 31, 2001.

Table 4
(In thousands of dollars)

Year ended March 31	Working capital payable, net of cash	Original start-up debt outstanding	Loan Act Authority outstanding	**Working capital payable and long term debt**	Current portion of long term debt due within one year
	As of March 31 each year				
1992	$	$ 8,235	$	**$ 8,235**	$ 138
1993		8,097	3,800	**11,897**	787
1994	119	6,245	3,012	**9,376**	791
1995		4,313	2,354	**6,667**	821
1996	1,679	4,211	1,635	**7,525**	896
1997		2,638	6,226	**8,864**	2,141
1998			12,437	**12,437**	2,984
1999	1,855		12,652	**14,507**	3,747
2000	2,160		12,306	**14,466**	4,576
2001	3,562		13,259	**16,821**	4,288

Although given 20 years to pay off our original $8,235 start-up debt, *FLEET*'s management recognized that the debt assumed primarily related to the vehicles assumed, and that repayment should be made over a period approximating the useful life of the vehicles to which it related. Accordingly, we made the final payment on our start-up debt on April 16, 1997, just over five years from the date we became a SOA.

Prior to a draw down in April 1996, the only draw downs from Loan Act Authority were the two draws totaling $3,800 made during 1992/93.

In 1996/97, we began what has become an established pattern for the funding of the cash needed for our annual operating cycle. Each year, through the Loan Act, we arrange for and draw down

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In 1996/97, we began what has become an established pattern for the funding of the cash needed for our annual operating cycle. Each year, through the Loan Act, we arrange for and draw down

55 to 60% of the cost of our new and replacement vehicles. In general, our operating results together with vehicle amortization (a non-cash expense) cover the remaining 40 to 45%, and make the required principal payments on our long term debt. Because draw downs generally straddle the year-end (sometimes falling in March and sometimes in April), the jumps in the year-end Loan Act Authority in Table 4 appear erratic, but they nonetheless follow the pattern.

In the past four years, our long term debt position at year-end has remained relatively consistent—$12,000 to just over $13,000—although the amount of principal due within one year has increased dramatically, as more and more of the long term debt approaches its five year maturity dates. This increased principal requirement together with our revenue sharing payments has added working capital payable over continuously longer periods as a new ingredient in the equation. The $1,679 as of March 31, 1996, resulted from the payment of vehicle purchases, but was more than covered by an April 1996 draw down from Loan Act Authority. The $2,160 and $3,562 as of March 31, 2000 and 2001 respectively, occur and remain *following fourth quarter draw downs* of $3,400 and $4,250 respectively.

The extended working capital payable positions are a definite concern to us at *FLEET*—not the positions themselves, but what it perhaps means for the future. The 2000 and 2001 year-end positions were or will be rectified during the first few months of the ensuing year from cash generated from normal operations including the payment of annual fixed billings by several departments. As was the case in 1999/2000, it is likely that we shall return to a working capital payable position as of September 30, 2001. At that date, we pay our annual MPI insurance premiums and make principal and interest payments on our outstanding Loan Act Authority. That position, however, should continue to be temporary in nature. Our real problem will resurface during the fourth quarter of 2001/02 when we pay for the majority of model year 2002 replacement vehicles *and* make principal and interest payments on our outstanding Loan Act Authority. March 31 each year is the best gauge or measure of our financial position.

Much of our financial success, in the form of strong operating results and financial position, has been realized solely through the loyalty and support of the departments, agencies and crown corporations that are our clients. Continued price increases, however, may soon test that loyalty and support. Our continuing challenge for the future will be to juggle our commitments for revenue sharing payments against our cost minimization mandate in an attempt to keep all stakeholders satisfied and happy.

Responsibility for Financial Reporting

The Agency's management is responsible for preparing the financial statements and other financial information in the Annual Report. This responsibility includes maintaining the integrity and objectivity of financial data and the presentation of the Agency's financial position and results of operations in accordance with generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgements. The Agency's financial statements have been audited by Grant Thornton LLP, independent external auditors.

The Agency maintains a system of internal controls throughout its operation that provides reasonable assurance that transactions are authorized, properly recorded and reported, and that assets are safeguarded.

An Advisory Board is available to meet, as required, with management to review accounting practices, financial reporting and to discuss audit results. During the year, management met twice with the Advisory Board. The auditors have free and full access to this Board, to discuss the results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.

Dennis Ducharme
Chief Operating Officer

Albert Ogonoski
Manager, Finance

May 18, 2001

Grant Thornton LLP
Chartered Accountants
Management Consultants
Canadian Member Firm of
Grant Thornton International

Grant Thornton

Auditors' Report

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of Fleet Vehicles Agency, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2001, and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2001, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

Grant Thornton LLP

Winnipeg, Canada
May 18, 2001

Chartered Accountants

900 - One Lombard Place
Winnipeg, Manitoba
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Financial Statements

Statements of Earnings and Retained Earnings
Year Ended March 31
(In thousands)

		2001	2000 (Note 12)
Revenue	Vehicle leases	$ 20,349	$ 18,987
	Gain on disposal of vehicles and equipment, net	727	522
	Interest income	80	58
	Other revenue (Page 36)	1,462	1,444
		22,618	21,011
Expenses	Salaries	1,925	1,900
	Vehicle operating expenses (Page 36)	16,296	14,809
	Administrative expenses (Page 36)	860	1,305
	Community service	28	95
	Interest expense	768	727
		19,877	18,836
Net earnings		$ 2,741	$ 2,175
Retained earnings, beginning of year			
	As previously reported	$ 9,970	$ 9,728
	Adjustment for pension expense applicable to the preceding year (Note 5)	(67)	
	As restated	9,903	9,728
Net earnings		2,741	2,175
Revenue sharing to the Consolidated Fund		(2,000)	(2,000)
Retained earnings, end of year		$ 10,644	$ 9,903

See accompanying notes to the financial statements.

Financial Statements

Balance Sheet
March 31
(In thousands)

		2001	2000 (Note 12)
Assets	Current		
	Short term investments (Note 5)	**$ 1,082**	$
	Receivables (Note 3)	**1,859**	2,413
	Inventories	**68**	52
	Prepaids	**1,200**	1,142
		4,209	3,607
	Capital assets (Note 4)	**30,092**	26,955
	Cash held for funding of pension liability (Note 5)		826
	Receivables from the Province of Manitoba		
	Pension benefits (Note 5)		150
	Severance pay benefits (Note 6)	**194**	194
		$ 34,495	$ 31,732
Liabilities	Current		
	Working capital payable, net of cash (Note 7)	**$ 3,562**	$ 2,160
	Payables and accruals (Note 5)	**1,736**	1,081
	Revenue sharing to the Consolidated Fund for the current year	**500**	500
	Unearned revenue	**412**	384
	Current portion of long term debt	**4,288**	4,576
		10,498	8,701
	Long term debt (Note 8)	**8,971**	7,730
	Pension liability (Note 5)		1,043
	Severance pay liability (Note 6)	**264**	237
		19,733	17,711
Equity	Contributed equity (Note 9)	**4,118**	4,118
	Retained earnings	**10,644**	9,903
		14,762	14,021
		$ 34,495	$ 31,732

Commitments (Note 10)

See accompanying notes to the financial statements.

Financial Statements

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Year Ended March 31
(In thousands)

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Commitments (Note 10)

See accompanying notes to the financial statements

Financial Statements

Statement of Cash Flows
Year Ended March 31
(In thousands)

		2001	2000 (Note 12)
Increase (decrease) in cash and cash equivalents			
Operating	Net earnings	**$ 2,741**	$ 2,175
	Amortization	**6,247**	5,820
	Gain on disposal of vehicles and equipment, net	**(727)**	(522)
	Increase (decrease) in pension liability	**(648)**	363
	Actuarial valuation gain on pension liability	**(395)**	
	Increase (decrease) in severance pay liability	**27**	(5)
		7,245	7,831
	Change in		
	Receivables	**554**	759
	Inventories	**(16)**	(8)
	Prepaids	**(58)**	(64)
	Payables and accruals	**655**	384
	Revenue sharing to the Consolidated Fund for the current year		500
	Unearned revenue	**28**	81
		8,408	9,483
Investing	Proceeds from disposal of vehicles and equipment	**1,384**	1,103
	Acquisition of vehicles	**(9,893)**	(8,051)
	Acquisition of office, shop and computer equipment	**(130)**	(145)
	Acquisition of leasehold improvements	**(18)**	(77)
	Cash held for funding of pension liability	**826**	(146)
		(7,831)	(7,316)
Financing	Proceeds from Loan Act Authority drawdowns	**5,650**	3,400
	Long term debt repayments	**(4,697)**	(3,747)
	Revenue sharing to the Consolidated Fund	**(2,000)**	(2,000)
	Receivables from the Province of Manitoba	**150**	(125)
		(897)	(2,472)
Net decrease in cash and cash equivalents		**(320)**	(305)
Working capital payable, net of cash and cash equivalents			
	Beginning of year	**(2,160)**	(1,855)
	End of year	**$ (2,480)**	$ (2,160)

See accompanying notes to the financial statements

Financial Statements

Statement of Cash Flows
Year Ended March 31
(In thousands)

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Working capital payable, net of cash and cash equivalents			
	Beginning of year	**(2,160)**	(1,855)
	End of year	**$ (2,480)**	$ (2,160)

See accompanying notes to the financial statements.

Financial Statements

Notes to the Financial Statements
March 31, 2001
(In thousands)

1. Nature of organization

In 1934, Fleet Vehicles was created as a branch of the Manitoba Provincial Government to provide a centralized fleet management program. It was established to achieve economies of scale and to lower overall fleet costs to government.

Effective April 1, 1992, the Fleet Vehicles branch was designated as a Special Operating Agency under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M., and operates under a charter approved by the Lieutenant Governor in Council.

The Agency is financed through the Special Operating Agencies Financing Authority (SOAFA). SOAFA has the mandate to hold and acquire assets required for and resulting from Agency operations. It finances the Agency through repayable loans and working capital advances. This financial framework enables the Agency to operate in a business-like manner according to public policy expectations.

A 1992 Management Agreement between SOAFA and the then Minister of Government Services assigns responsibility to the Agency to manage and account for the Agency-related assets and operations on behalf of SOAFA.

Fleet Vehicles Agency continues to be part of Manitoba Government Services under the general direction of the Assistant Deputy Minister, Supply and Services Division, and ultimately the policy direction of the Deputy Minister and the Minister of Transportation and Government Services.

Fleet Vehicles Agency remains bound by relevant legislation and regulations. It is also bound by administrative policy except where specific exemptions have been provided in its charter in order to meet business objectives.

Fleet Vehicles Agency is economically dependent on The Government of Manitoba, as it derives most of its revenue and all of its capital financing requirements from the Province.

2. Significant accounting policies

Basis of reporting

The financial statements of the Agency are presented in accordance with generally accepted accounting principles.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts and short term investments with original maturities of six months or less. Bank borrowings are considered to be financing activities.

Inventories

Inventories are valued at the lower of cost and market value.

Capital assets

Rates and bases of amortization applied to write off the cost less estimated salvage value of capital assets over their estimated lives are as follows:

Vehicles	30%, declining balance
Vehicles (signed lease agreement)	straight line over term of lease

Financial Statements

Notes to the Financial Statements
March 31, 2001
(In thousands)

2. *Significant accounting policies* (continued)

Office and shop equipment	20% declining balance
Computer software and equipment	20% straight line
Leasehold improvements	10% straight line

Use of estimates

In preparing the Agency's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates.

3. *Receivables*

	2001	2000
Trade	$ 917	$ 1,512
Accrued trade	671	641
Insurance agency rebate receivable	271	260
	$ 1,859	$ 2,413

4. *Capital assets*

	Cost	Accumulated Amortization	2001 Net Book Value	2000 Net Book Value
Vehicles	$ 55,507	$ 25,979	$ 29,528	$ 26,426
Office, shop and computer equipment	951	639	312	252
Leasehold improvements	434	182	252	277
	$ 56,892	$ 26,800	$ 30,092	$ 26,955

5. *Pension liability*

The employees of Fleet Vehicles Agency are eligible for pension benefits in accordance with the provisions of The Civil Service Superannuation Act. Pursuant to an agreement with the Province of Manitoba, Special Operating Agencies (SOAs) are responsible for the pension liability incurred for their employees only from each Agency's date of designation as a SOA. The methodology for calculating the liability was determined in conjunction with the Province.

Financial Statements

Notes to the Financial Statements
March 31, 2001
(In thousands)

2. *Significant accounting policies* (continued)

Office and shop equipment	20%, declining balance
Computer software and equipment	20%, straight line
Leasehold improvements	10%, straight line

Use of estimates

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Financial Statements

Notes to the Financial Statements
March 31, 2001
(In thousands)

5. *Pension liability* (continued)

and the Province has accepted responsibility for the pension liability for prior service, as well as for any variance resulting from the calculation.

In July 2000, the Agency restated its pension liability as of March 31, 1999, to an indexed basis to be consistent with revised Provincial policy. An error in the original methodology also caused the previous calculation to be understated. The restatement resulted in the retroactive recording of an increased pension liability of $217 for benefits through March 31, 2000. Of that amount, $150 was recorded as a receivable from the Province (under arrangements discussed in the preceding paragraph), and $67 applicable to the preceding year was recorded as a retroactive adjustment to Retained Earnings as of March 31, 2000.

Through March 31, 2001, the Agency deposited $1,082, an amount equal to its anticipated share of the pension liability, in a separate investment account with the Treasury Division.

An actuarial valuation report of the Agency's pension liability for its employees from the date of designation as a SOA was completed February, 2001. The report calculated the pension liability as of March 31, 2000, and provided a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated on an indexed basis to be $806 as of March 31, 2001 (2000 - $648).

As of March 31, 2001, the Province assumed responsibility for administering the SOA's pension liabilities. Accordingly, the pension liability of $806 at that date, net of the $150 receivable from the Province, has been reclassified as a current liability in payables and accruals in the accompanying balance sheet. The Agency will transfer funds equal to the net amount to the Province during the year ending March 31, 2002.

6. *Severance pay liability*

Effective April 1, 1998, the Agency commenced recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of 15 years, by the weekly salary at date of retirement, provided the employee has reached nine years of service and retires from the Agency. Effective April 2000, there is also additional severance pay for employees with 20 or more years of accumulated service. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as of April 1, 1998, of $219 was completely offset by a receivable from the Province. There are no terms of repayment for this receivable.

An actuarial valuation report of the Agency's severance liability as of March 31, 2000, was completed February, 2001. The liability as of March 31, 2000, was restated to $237 and the receivable from the Province was restated to $194 as a result of the actuarial valuation being largely related to service rendered prior to 1998. There was no effect on the severance benefit expense for the year ended March 31, 2000. The report provides a formula to update the liability on an annual basis. In accordance with the formula, the Agency's actuarial liability has been calculated to be $264 as of March 31, 2001.

7. *Working capital payable*

The Agency has an authorized line of working capital advances of $4,000 ($2,500 as of March 31, 2000). $3,612 of which was used as of March 31, 2001 (2000: $2,231).

Financial Statements

Notes to the Financial Statements
March 31, 2001
(In thousands)

8. *Long term debt*

Loan Act Authority is repayable in semi-annual instalments of principal and interest, as follows:

			Principal Balance Owing	
Interest Rate	Instalment Amount	Maturity Date	**2001**	2000
7 1/8%	$ 181	March 31, 2001	**$**	$ 343
7%	601	March 31, 2001		1,142
6%	469	March 31, 2002	**897**	1,743
5 ½%	289	September 30, 2002	**822**	1,335
5 7/8%	316	March 31, 2003	**1,175**	1,713
5 ½ %	232	March 31, 2004	**1,264**	1,642
6%	141	March 31, 2004	**762**	988
6 7/8%	408	March 31, 2005	**2,809**	3,400
6 5/8%	167	September 30, 2005	**1,280**	
5 3/4%	495	March 31, 2006	**4,250**	
Total principal owing as of March 31			**13,259**	12,306
Amount due within one year			**4,288**	4,576
Long term debt as of March 31			**$ 8,971**	$ 7,730

By virtue of the Management Agreement, the Agency is responsible for the repayment of debts assumed by the Special Operating Agencies Financing Authority (SOAFA) on its behalf. SOAFA holds the debt instruments listed above on behalf of Fleet Vehicles Agency.

Unused loan authority of $1,400 was available as of March 31, 2000. An additional $5,300 regular and $1,000 special was approved during the year, for a total available of $7,700. Following the drawdown of $1,400 in September 2000 at 6 5/8% interest and a further $4,250 in March 2001 at 5 3/4% interest, there is $2,050 in unused loan authority remaining, all from The Loan Act, 2000.

As of March 31, 2001, principal repayments in each of the next five years are as follows:

2002	$ 4,288
2003	3,308
2004	2,573
2005	1,979
2006	1,111

Financial Statements

Notes to the Financial Statements
March 31, 2000
(In thousands)

9. *Contributed equity*

The Special Operating Agencies Financing Authority (SOAFA) and The Government of Manitoba entered into a Transfer Agreement in connection with the transfer from the Government to SOAFA of assets valued at $12,353 required for the continuing operations of Fleet Vehicles Agency as of March 31, 1992. The Agency has repaid the debt portion in the amount of $8,235 (2/3 of the value of the assets) and has recorded the balance of $4,118 (1/3 of the value of the assets) as the Government's equity in SOAFA relating to the Agency's operations.

10. *Commitments*

(a) Pursuant to a Memorandum of Understanding dated May 31, 1996, the Agency entered into a lease agreement with The Government of Manitoba through Manitoba Government Services for the rental of the facilities at 626 Henry Avenue, Winnipeg, Manitoba. Occupancy charges for each fiscal year including 2001/02 are established annually based on the approved budget for the Department of Transportation and Government Services. Occupancy charges for 2001/02 are estimated at $398 for the year, to be paid in semi-annual instalments in July 2001 and January 2002.

(b) The Agency's approved 2001/02 Business Plan calls for $1,000 in revenue sharing to be paid in quarterly instalments to the Consolidated Fund during 2001/02.

11. *Requirements of The Public Sector Compensation Disclosure Act*

Pursuant to Section 2(1) of the Act, the following employees of Fleet Vehicles Agency received compensation, directly or indirectly, of $50 or more in the fiscal year ended March 31.

Name	Position	2001	2000
Kathryn Bernhardt	Manager, Support Services	$ 60	$ 52
Derek Boutang	Systems Analyst	52	
Donald Chesney	Manager, Fleet	60	54
Dennis Ducharme	Chief Operating Officer	80	79
Jordan Janisse	Systems Supervisor	55	52
Albert Ogonoski	Manager, Finance	54	54
William Reynolds	Senior Manager, Strategic Planning	57	56
Guy Sinclair	Manager, Operations	60	55

12. *Comparative figures*

The financial statements for the year ended March 31, 2000, presented for comparative purposes, have been restated from those previously reported to include the retroactive adjustments to the recorded pension and severance pay liabilities as of March 31, 2000, as discussed in Notes 5 and 6 above.

Financial Statements

Notes to the Financial Statements
March 31, 2001
(In thousands)

8. Long term debt

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Financial Statements

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March 31, 2000
(In thousands)

9. Contributed equity

The Special Operating Agencies Financing Authority (SOAFA) and The Government of Manitoba entered into a Transfer Agreement in connection with the transfer from the Government to SOAFA of assets valued at $12,353 required for the continuing operations of Fleet Vehicles Agency as of March 31, 1992. The Agency has repaid the debt portion in the amount of $8,235 (2/3 of the value of the assets) and has recorded the balance of $4,118 (1/3 of the value of the assets) as the Government's equity in SOAFA relating to the Agency's operations.

10. Commitments

(a) Pursuant to a Memorandum of Understanding dated May 31, 1996, the Agency entered into a lease agreement with The Government of Manitoba through Manitoba Government Services for the rental of the facilities at 626 Henry Avenue, Winnipeg, Manitoba. Occupancy charges for each fiscal year including 2001/02 are established annually based on the approved budget for the Department of Transportation and Government Services. Occupancy charges for 2001/02 are estimated at $398 for the year, to be paid in semi-annual instalments in July 2001 and January 2002.

(b) The Agency's approved 2001/02 Business Plan calls for $1,000 in revenue sharing to be paid in quarterly instalments to the Consolidated Fund during 2001/02.

11. Requirements of The Public Sector Compensation Disclosure Act

Pursuant to Section 2(1) of the Act, the following employees of Fleet Vehicles Agency received compensation, directly or indirectly, of $50 or more in the fiscal year ended March 31.

Name	Position	2001	2000
Kathryn Bernhardt	Manager, Support Services	$ 60	$ 52
Derek Boutang	Systems Analyst	52	
Donald Chesney	Manager, Fleet	60	54
Dennis Ducharme	Chief Operating Officer	80	79
Jordan Janisse	Systems Supervisor	55	52
Albert Ogonoski	Manager, Finance	54	54
William Reynolds	Senior Manager, Strategic Planning	57	56
Guy Sinclair	Manager, Operations	60	55

12. Comparative figures

The financial statements for the year ended March 31, 2000, presented for comparative purposes, have been restated from those previously reported to include the retroactive adjustments to the recorded pension and severance pay liabilities as of March 31, 2000, as discussed in Notes 5 and 6 above.

Financial Statements

Schedule of Other Revenue and Expenses
Year Ended March 31
(In thousands)

		2001	2000 (Note 12)
Other revenue	Service	$ 734	$ 719
	Rebates	576	536
	Autopac service revenue	152	189
		$ 1,462	$ 1,444
Vehicle operating expenses	Amortization	$ 6,134	$ 5,719
	Fuel	5,213	4,484
	Insurance premiums	2,224	2,100
	Repairs and maintenance	2,725	2,506
		$ 16,296	$ 14,809
Administrative expenses	Amortization	$ 113	$ 101
	Fleet management information system	178	150
	Telephone and communication	30	31
	Human resource overhead	424	474
	Actuarial valuation gain on pension liability	(395)	
	Occupancy costs	398	392
	Other costs	48	56
	Professional fees	13	36
	SOAFA charges	3	2
	Supplies and materials	48	63
		$ 860	$ 1,305

FLEET Facts

Year ended March 31	Projected 2000/01	**Actual 2000/01**	Actual 1999/2000
Distance			
Total kilometres driven (000s)	53,000	**51,574**	53,130
Revenue			
Total lease revenue (000s)	$ 20,500	**$ 20,349**	$ 18,987
All other revenue (000s)	$ 1,635	**2,269**	$ 2,024
Total revenue (000s)	$ 22,135	**$ 22,618**	$ 21,011
Average lease rate per kilometre	$ 0.3868	**$ 0.3946**	$ 0.3574
Fleet Composition			
Total number of vehicles - full maintenance	2,478	**2,391**	2,372
Total number of vehicles - dry lease	235	**218**	217
Total number of vehicles in the fleet	2,713	**2,609**	2,589
Vehicle acquisitions	360	**383**	327
Average purchase price (000s)	$ 24.4	**$ 25.8**	$ 24.6
Vehicle disposals	269	**363**	211
Average disposal proceeds (000s)	$ 5.3	**$ 3.8**	$ 5.2
Gain on disposal of vehicles and equipment, net (000s)	$ 225	**727**	$ 522
Average vehicle age (in years)	4.0	**4.0**	4.2
Average vehicle age excluding seasonals (in years)	3.0	**3.2**	3.2
Fuel Consumption			
Litres (000s)	7,950	**8,352**	7,819
Price per litre	$ 0.5950	**$ 0.6242**	$ 0.5735
Litres consumed per 100 kilometres	15.000	**16.194**	14.717

Financial Statements

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Year Ended March 31
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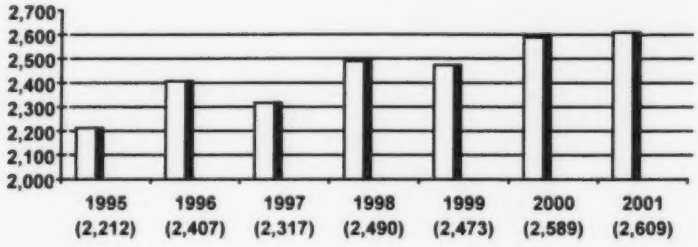
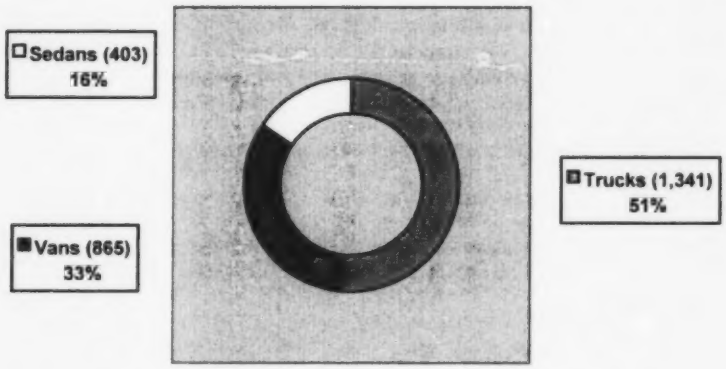
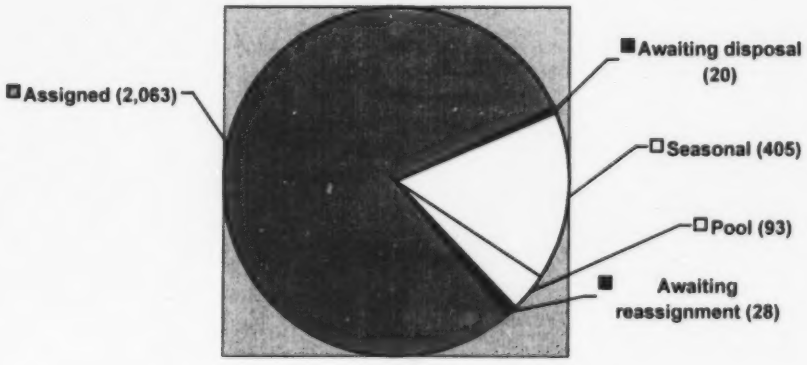
Fleet Size (*in units*)



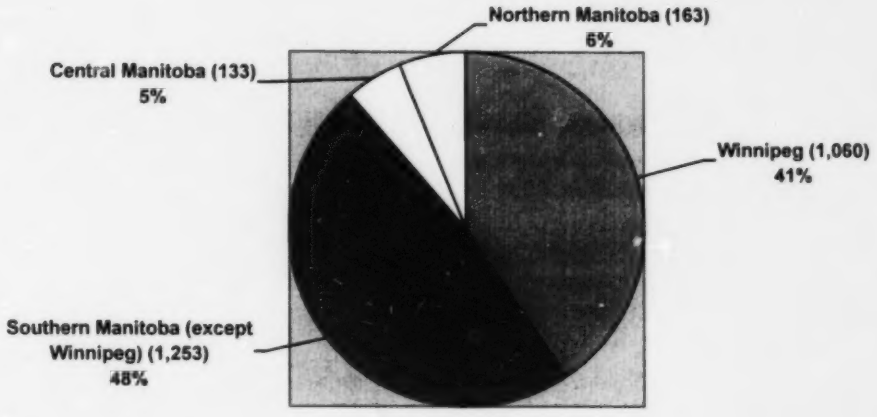
Vehicle Type as of March 31, 2001 (*in units*)



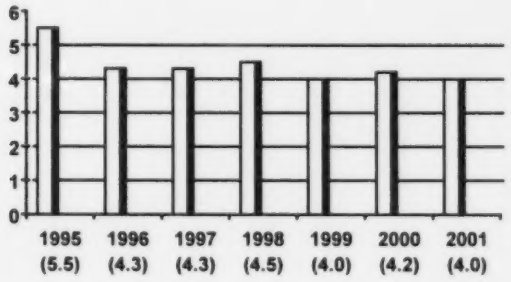
Fleet Composition as of March 31, 2001 (*in units*)



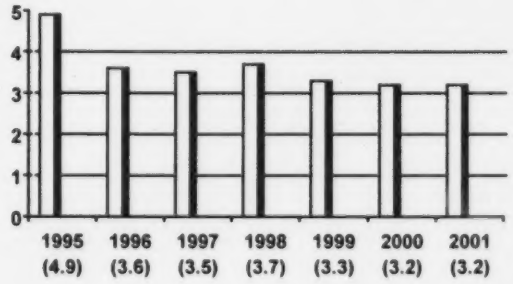
Distribution of Vehicles as of March 31, 2001 (*as designated by MPI regions*)



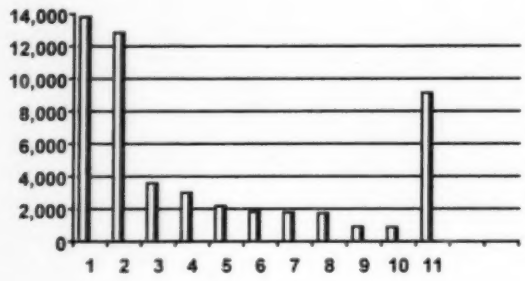
Vehicle Age (*in years, including seasonal vehicles*)



Vehicle Age (*in years, excluding seasonal vehicles*)



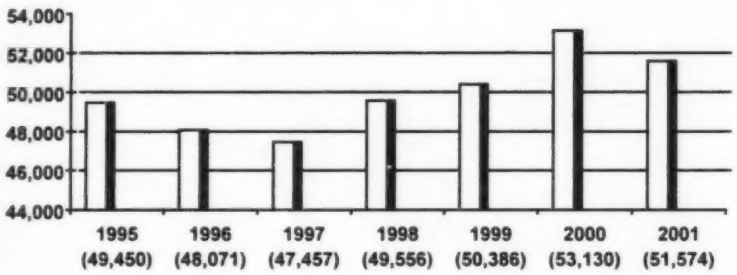
Distance by Department in 2000/01
(in thousands of kilometres)



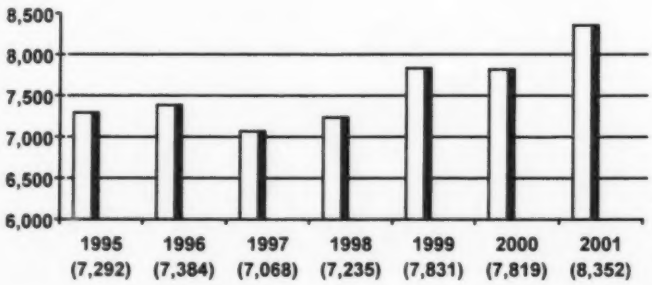
Distance by Department Legend
(in thousands of kilometres)

1.	Transportation and Government Services (formerly Highways)	13,814
2.	Conservation	12,835
3.	Justice	3,581
4.	Family Services and Housing	3,000
5.	Manitoba Lotteries	2,176
6.	Transportation and Government Services (formerly Government Services)	1,800
7.	Intergovernmental Affairs	1,766
8.	Agriculture and Food	1,719
9.	Industry, Trade and Mines	879
10.	Office of the Fire Commissioner	878
11.	Other (76 other clients)	9,126

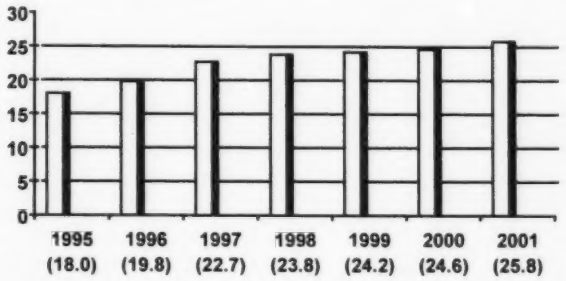
Fleet Distance *(in thousands of kilometres)*



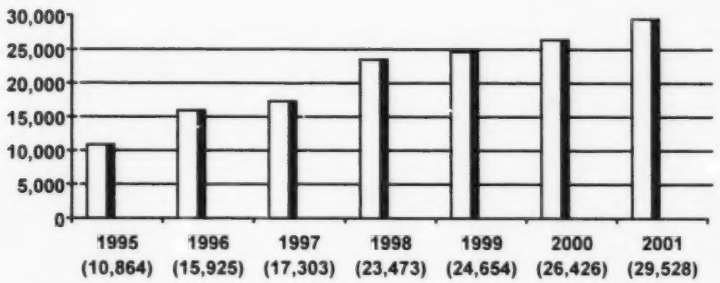
Fuel Consumption *(in thousands of litres)*



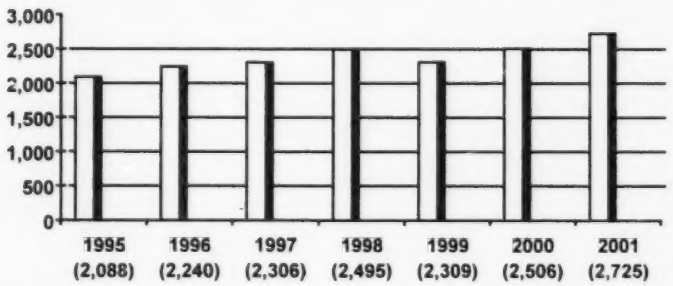
New Vehicles Average Purchase Price *(in thousands of dollars per unit)*



Carrying Value (Cost less Accumulated Amortization) of Vehicles
(in thousands of dollars)



Repair Costs *(in thousands of dollars)*



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Our vision is to provide complete vehicle and equipment management services to the broader public sector.